

CITY OF KINGSTON, TENNESSEE

**Audited Financial Statements
June 30, 2013**

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CITY OF KINGSTON, TENNESSEE
LIST OF CITY OFFICIALS
JUNE 30, 2013

Mayor Troy Beets

Council Member Tim Neal

Council MemberKevin McClure

Council Member Tony D. Brown

Council Member John T. Byrkit

Council Member Norman Sugarman

Council MemberDon White

City ManagerDavid Bolling

Former City Manager..... Jim Pinkerton

Interim City Manager..... Carolyn Brewer

Fire Chief Willie Gordon

Police Chief.....Jim Washam

Parks & Recreation Director..... Rick Ross

City Attorney Jack McPherson



DANIELS, USELTON AND CLAY, P.C.

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Manager and City Council
City of Kingston, Tennessee
Kingston, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kingston Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kingston, Tennessee, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and Schedule of Funding Progress – Political Subdivision Pension Plan Supplementary Information on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kingston, Tennessee's basic financial statements. The list of city officials, individual nonmajor fund financial statements, schedule of property taxes receivable, and schedule of long-term debt requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The individual nonmajor fund financial statements, schedule of expenditures of federal and state awards, schedule of property taxes receivable, and schedule of long-term debt requirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund financial statements, schedule of expenditures of federal and state awards, schedule of property taxes receivable, and schedule of long-term debt requirements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The list of city officials, schedule of utility rates and number of customer served, water utility reporting worksheet, and schedule of insurance coverage have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013, on our consideration of the City of Kingston, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kingston, Tennessee's internal control over financial reporting and compliance.

Daniel, Uselman - Clay, P.C.

Kingston, Tennessee

November 26, 2013

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis
JUNE 30, 2013

The City of Kingston Management's Discussion and Analysis (MD&A) is a supplementary document in addition to, and part of, the municipality's annual audit report. As management of the City of Kingston, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Kingston for the fiscal year ended June 30, 2013. The Governmental Accounting Standards Board (GASB-34) requires that the MD&A be developed by the administration and management of the municipality. The city has the accounting firm of Daniels, Uselton & Clay, P.C., Kingston, TN, under contract to complete the annual audit of the city's finances. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

Financial Highlights and Overview:

- At June 30, 2013, the assets of the City of Kingston exceeded its liabilities by \$21,170,562. Of this amount, \$4,383,037 is considered unassigned funds and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City issued new debt during the current fiscal year in the amount of \$4,126,987 which the amount paid down on debt totaled \$1,186,693 resulting in a net increase in debt of \$2,940,294.
- At the end of the current fiscal year, the City's enterprise (water and sewer) fund reported an ending fund balance of \$13,001,262. Of this amount, \$2,898,696 or 22% is in restricted funds.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction of the City of Kingston's basic financial statements. The City of Kingston's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements:

The Government-wide Financial Statements are designed to provide readers with a broad overview of the City of Kingston's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis
JUNE 30, 2013

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the Government-wide Financial Statements distinguish functions of the City of Kingston that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, drug enforcement, parks and recreation and waste management services. The business-type activities include City of Kingston Water Department wastewater and waterworks services.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kingston, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kingston can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds:

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis
JUNE 30, 2013

Proprietary Funds:

The City of Kingston maintains a Water and Sewer fund as an enterprise or proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the Water and Sewer activities, which is also considered a major fund of the City.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Kingston's budgetary fund balance, noting variances with actual and final budget amounts.

Government-Wide Financial Analysis:

The following table provides a summary of the City's net position at June 30, 2013 and 2012:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current and other assets	\$ 9,442,636	\$ 12,066,361	\$ (2,623,725)	-21.74%
Capital assets	<u>28,351,211</u>	<u>21,307,549</u>	<u>7,043,662</u>	<u>33.06%</u>
Total assets	<u>\$ 37,793,847</u>	<u>\$ 33,373,910</u>	<u>\$ 4,419,937</u>	<u>13.24%</u>
Long-term liabilities outstanding	\$ 13,612,571	\$ 11,885,916	\$ 1,726,655	14.53%
Other liabilities	3,010,714	3,010,110	604	0.02%
Net position	<u>21,170,562</u>	<u>18,477,884</u>	<u>2,692,678</u>	<u>14.57%</u>
Total liabilities and net position	<u>\$ 37,793,847</u>	<u>\$ 33,373,910</u>	<u>\$ 4,419,937</u>	<u>13.24%</u>

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis
JUNE 30, 2013

The following table provides a summary of the City's changes in net position for the years ending June 30, 2013 and 2012:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Revenues				
Governmental activities	\$ 7,189,184	\$ 6,057,956	\$ 1,131,228	18.67%
Business-type activities	<u>3,510,659</u>	<u>8,221,126</u>	<u>(4,710,467)</u>	<u>-57.30%</u>
Total revenues	<u>\$ 10,699,843</u>	<u>\$ 14,279,082</u>	<u>\$ (3,579,239)</u>	<u>-54.91%</u>
Expenses	<u>\$ 8,007,165</u>	<u>\$ 7,481,181</u>	<u>\$ 525,984</u>	<u>-6.65%</u>
Change in net position	<u>\$ 2,692,678</u>	<u>\$ 6,797,901</u>	<u>\$ (4,105,223)</u>	<u>-60.39%</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Kingston, total assets exceeded liabilities by \$21,170,562 at the close of this fiscal year.

The largest portion of the City of Kingston's net position (66%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City of Kingston uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Kingston's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Financial Analysis of the City's Funds:

As noted earlier, the City of Kingston uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis
JUNE 30, 2013

Governmental Funds:

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kingston's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. As of June 30, 2013, the City of Kingston's general fund reported an ending fund balance of \$1,782,910 a decrease in comparison with the prior year. The Special Revenue Funds reported an ending fund balance of \$2,383 a decrease in comparison to the prior year.

The general fund is the chief operating fund of the City of Kingston. At June 30, 2013, unassigned fund balance of the general fund was \$1,782,910. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 23% of total general fund expenditures. The fund balance decreased \$59,769 as a result of the current fiscal year operations.

Proprietary Funds:

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$2,467,711. The total decrease in net assets for the Water and Sewer fund was \$2,549,016. The fund had \$7,634,855 in net assets invested in capital assets net of related debt. Factors concerning the financial position of this fund have already been addressed in the discussion of the City's business-type activities.

Capital Assets:

The City of Kingston's investment in capital assets for its governmental activities as of June 30, 2013, amounted to \$10,036,532. This investment includes land and land improvements, buildings, machinery, and equipment. In the City's proprietary fund, the utility plant in service (net of depreciation) as of June 30, 2013, is \$18,314,679.

Major capital asset events during the current fiscal year included the following:

- Completion of Rockwood Interconnect
- Construction of new sewer lines
- Acquisition of New City Hall Building
- Completion of Phase IIA of Gallaher Road
- Construction of Phase IIB of Gallaher Road
- Acquisition of Obsolete DOD Equipment

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis
JUNE 30, 2013

Capital assets of the City of Kingston at June 30, 2013 are as follows:

	Governmental activities	Business-type activities	Total
Land	\$ 735,089	\$ 270,618	\$ 1,005,707
Buildings and improvements	4,596,368	-	4,596,368
Machinery and equipment	3,915,919	405,514	4,321,433
Water plant and distribution	-	8,532,893	8,532,893
Sewer plant and transmission	-	12,827,642	12,827,642
Other improvements	4,599,201	-	4,599,201
Start up cost	-	128,611	128,611
Construction in progress	1,853,954	4,608,556	6,462,510
 Total capital assets at cost	 15,700,531	 26,773,834	 42,474,365
 Accumulated depreciation	 (5,664,496)	 (8,459,155)	 (14,123,651)
 Capital assets, net	 <u>\$ 10,036,035</u>	 <u>\$ 18,314,679</u>	 <u>\$ 28,350,714</u>

Economic Factors and Next Year's Budget and Rates:

The following factors were considered in preparing the City's budget for the 2013-2014 fiscal year.

- Water and sewer rates were increased by 5%.
- With the exception of business taxes, state shared revenues have increased somewhat over the past few years.
- Inflationary trends in health care and fuel costs continue to impact increases in next year's budget projections.
- RUS/USDA loans and grants are expected to close during 2014.

Requests for Information

This financial report is designed to provide a general overview of the City of Kingston's finances. Questions concerning any information provided in this report or requests for any additional financial information should be addressed to the Office of the City Manager, City of Kingston, 900 Waterford Place., Kingston, Tennessee 37763.

CITY OF KINGSTON, TENNESSEE
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,510,489	\$ 1,335,259	\$ 2,845,748
Receivables, net	2,395,497	477,660	2,873,157
Inventories	-	72,725	72,725
Unbilled revenue	-	277,483	277,483
Grants receivable	36,064	416,643	452,707
Total Current Assets	<u>3,942,050</u>	<u>2,579,770</u>	<u>6,521,820</u>
Other Assets			
Restricted cash	-	2,898,696	2,898,696
Unamortized bond discount	11,480	10,640	22,120
Start-up costs	-	128,611	128,611
Less: allowance for amortization	-	(128,611)	(128,611)
Capital assets			
Land	735,089	270,618	1,005,707
Other capital assets, net	9,301,443	18,044,061	27,345,504
Total Other Assets	<u>10,048,012</u>	<u>21,224,015</u>	<u>31,272,027</u>
Total Assets	<u>\$ 13,990,062</u>	<u>\$ 23,803,785</u>	<u>\$ 37,793,847</u>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts payable	167,262	9,174	176,436
Accrued employee benefits	40,000	20,000	60,000
Accrued interest	-	5,187	5,187
Current portion of long-term debt	391,352	466,225	857,577
Other	63,763	(10,306)	53,457
Total Current Liabilities	<u>662,377</u>	<u>490,280</u>	<u>1,152,657</u>
Long-Term Liabilities			
Long-term debt	3,398,972	10,213,599	13,612,571
Accrued employee benefits	18,738	98,644	117,382
Deferred revenue - taxes	1,740,675	-	1,740,675
Total Long-Term Liabilities	<u>5,158,385</u>	<u>10,312,243</u>	<u>15,470,628</u>
Total Liabilities	<u>5,820,762</u>	<u>10,802,523</u>	<u>16,623,285</u>
NET POSITION			
Investment in capital assets, net of related debt			
net of related debt	6,246,208	7,634,855	13,881,063
Restricted	7,766	2,898,696	2,906,462
Unrestricted	1,915,326	2,467,711	4,383,037
Total Net Position	<u>8,169,300</u>	<u>13,001,262</u>	<u>21,170,562</u>
Total Liabilities and Net Position	<u>\$ 13,990,062</u>	<u>\$ 23,803,785</u>	<u>\$ 37,793,847</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Governmental Activities						
General government	\$ 1,074,294	\$ 3,630	\$ -	\$ (1,070,664)	\$ -	\$ (1,070,664)
Public safety	1,917,288	-	465,250	(1,452,038)	-	(1,452,038)
Public welfare	1,741,658	24,205	-	(1,717,453)	-	(1,717,453)
Drug fund	8,642	4,779	-	(3,863)	-	(3,863)
Waste management	290,610	327,043	-	36,433	-	36,433
Interest on long-term debt	53,778	-	-	(53,778)	-	(53,778)
Total Governmental Activities	<u>5,086,270</u>	<u>359,657</u>	<u>465,250</u>	<u>(4,261,363)</u>	<u>-</u>	<u>(4,261,363)</u>
Business-Type Activities						
Water and Sewer Fund	<u>2,920,895</u>	<u>3,018,996</u>	<u>491,663</u>	<u>-</u>	<u>589,764</u>	<u>589,764</u>
Total Business-Type Activities	<u>2,920,895</u>	<u>3,018,996</u>	<u>491,663</u>	<u>-</u>	<u>589,764</u>	<u>589,764</u>
Total Primary Government	<u>\$ 8,007,165</u>	<u>\$ 3,378,653</u>	<u>\$ 956,913</u>	<u>(4,261,363)</u>	<u>589,764</u>	<u>(3,671,599)</u>
General Revenues						
Property taxes				1,819,118	-	1,819,118
Sales taxes				963,004	-	963,004
Business taxes				34,041	-	34,041
Other local taxes				270,654	-	270,654
Intergovernmental revenues				801,567	-	801,567
Licenses and permits				124,581	-	124,581
Fines and fees				122,438	-	122,438
Investment earnings				2,612	-	2,612
Other revenues				<u>2,226,262</u>	<u>-</u>	<u>2,226,262</u>
Total General Revenue				<u>6,364,277</u>	<u>-</u>	<u>6,364,277</u>
CHANGE IN NET POSITION				2,102,914	589,764	2,692,678
NET POSITION AT THE BEGINNING OF THE YEAR				6,066,386	12,411,498	18,477,884
NET POSITION AT THE END OF THE YEAR				<u>\$ 8,169,300</u>	<u>\$ 13,001,262</u>	<u>\$ 21,170,562</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,508,106	\$ 2,383	\$ 1,510,489
Property taxes receivables, net	1,972,760	-	1,972,760
Other taxes receivable	422,737	-	422,737
Grants receivable	<u>36,064</u>	<u>-</u>	<u>36,064</u>
TOTAL ASSETS	<u><u>\$ 3,939,667</u></u>	<u><u>\$ 2,383</u></u>	<u><u>\$ 3,942,050</u></u>
LIABILITIES			
Liabilities			
Accounts payable	167,262	-	167,262
Accrued employee benefits	40,000	-	40,000
Accrued interest	-	-	-
Other current liabilities	63,763	-	63,763
Deferred revenue	<u>1,885,732</u>	<u>-</u>	<u>1,885,732</u>
TOTAL LIABILITIES	<u><u>2,156,757</u></u>	<u><u>-</u></u>	<u><u>2,156,757</u></u>
FUND BALANCES			
Unassigned	1,782,910	-	1,782,910
Restricted, reported in nonmajor			
Special revenue funds	<u>-</u>	<u>2,383</u>	<u>2,383</u>
TOTAL FUND BALANCES	<u><u>1,782,910</u></u>	<u><u>2,383</u></u>	<u><u>1,785,293</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 3,939,667</u></u>	<u><u>\$ 2,383</u></u>	<u><u>\$ 3,942,050</u></u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balance - Governmental Funds \$ 1,785,293

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are reported
in the statement of net position; however, they are not current
financial resources and therefore are not reported in the
governmental funds balance sheet 10,048,012

Some of the City's taxes will be collected after year-end, but are not
available soon enough to pay for the current period's expenditures;
therefore, they are reported as deferred revenue in the
governmental funds balance sheet. 145,057

Long-term liabilities are not due in the current period
and, therefore, are not reported in the governmental
funds balance sheet. (3,809,062)

Net Position of Governmental Activities \$ 8,169,300

See accompanying notes to financial statements.

**CITY OF KINGSTON, TENNESSEE
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	General	Other Governmental Funds	Total Governmental Funds
REVENUE			
Local taxes	\$ 3,182,472	\$ -	\$ 3,182,472
Intergovernmental	801,567	-	801,567
Public welfare	3,630	-	3,630
Licenses and permits	124,581	-	124,581
Fees for services	24,205	-	24,205
Fines and forfeitures	122,438	-	122,438
Drug fund	-	4,779	4,779
Waste management	327,043	-	327,043
Other revenues	2,236,012	-	2,236,012
Investment earnings	2,612	-	2,612
TOTAL REVENUE	<u>6,824,560</u>	<u>4,779</u>	<u>6,829,339</u>
EXPENDITURES			
Current:			
General government	890,742	6,942	897,684
Public safety	1,789,558	-	1,789,558
Public welfare	2,016,623	-	2,016,623
Capital outlay	3,767,103	-	3,767,103
Debt Service:			
Principal	716,404	-	716,404
Interest	53,886	-	53,886
TOTAL EXPENDITURES	<u>9,234,316</u>	<u>6,942</u>	<u>9,241,258</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>(2,409,756)</u>	<u>(2,163)</u>	<u>(2,411,919)</u>
OTHER FINANCING SOURCES			
Debt proceeds	2,348,987	-	2,348,987
TOTAL OTHER FINANCING SOURCES	<u>2,348,987</u>	<u>-</u>	<u>2,348,987</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES	(60,769)	(2,163)	(62,932)
FUND BALANCES AT THE BEGINNING OF THE YEAR	<u>1,843,679</u>	<u>4,546</u>	<u>1,848,225</u>
FUND BALANCES AT THE END OF THE YEAR	<u>\$ 1,782,910</u>	<u>\$ 2,383</u>	<u>\$ 1,785,293</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUE
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds \$ (62,932)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Acquisition of capital assets	3,723,518
Depreciation expense	(330,740)

Repayment of long-term debt is an expenditures in the governmental funds, but reduces the long-term liabilities for governmental activities.

Repayment of long-term debt	764,506
Other financing sources	(2,348,987)

Revenue reported in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental fund financial statements.

359,844

The statement of activities reports the full portion of accrued employees benefits. However, in the governmental funds, only the current portion is recorded.

(2,295)

Change in Net Position of Governmental Activities	<u>\$ 2,102,914</u>
----------------------------------------------------------	----------------------------

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

	Budget			Variance
	Original	Final	Actual	Favorable/ (Unfavorable)
REVENUE				
Taxes:				
Property taxes	\$ 1,843,086	\$ 1,845,916	\$ 1,827,363	\$ (18,553)
Interest & penalty	17,000	17,000	21,798	4,798
In-Lieu of tax payments	46,676	46,676	57,188	10,512
Local sales tax	1,088,242	1,088,242	1,050,414	(37,828)
Business tax	82,000	82,000	34,041	(47,959)
Wholesale liquor tax	47,000	47,000	43,631	(3,369)
Wholesale beer tax	179,250	179,250	169,835	(9,415)
	<u>3,303,254</u>	<u>3,306,084</u>	<u>3,204,270</u>	<u>\$ (101,814)</u>
Intergovernmental:				
State income tax	46,160	46,160	61,358	15,198
State beer tax	3,138	3,138	2,934	(204)
State sales tax	401,780	401,780	409,073	7,293
State liquor tax	8,800	8,800	8,412	(388)
Corporate excise tax	26,900	26,900	5,407	(21,493)
Hotel & motel tax	38,400	38,400	34,759	(3,641)
TVA & special impact funds	111,885	111,885	118,752	6,867
Miscellaneous	81,600	81,600	81,693	93
City streets	250,083	250,083	195,631	(54,452)
	<u>968,746</u>	<u>968,746</u>	<u>918,019</u>	<u>(50,727)</u>
Licenses and permits:				
Beer & liquor permits	4,000	4,000	2,050	(1,950)
Building permits	20,000	20,000	6,075	(13,925)
	<u>24,000</u>	<u>24,000</u>	<u>8,125</u>	<u>(15,875)</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

	Budget			Variance
	Original	Final	Actual	Favorable/ (Unfavorable)
Charges for services:				
Swimming pool	26,220	26,220	17,678	(8,542)
Parks and recreation	10,600	10,600	6,527	(4,073)
General charges	2,100	2,100	130	(1,970)
City hall rental	-	-	22,318	22,318
Water and gas contracts	341,500	341,500	341,500	-
Pavilion rental	2,000	2,000	3,367	1,367
	<u>382,420</u>	<u>382,420</u>	<u>391,520</u>	<u>9,100</u>
Fines and forfeitures:	<u>77,800</u>	<u>77,800</u>	<u>100,640</u>	<u>22,840</u>
Other revenues:				
DOD military surplus	-	-	9,750	9,750
TML grants	3,500	3,500	3,500	-
Insurance recoveries	-	-	5,446	5,446
DOT grant	1,500,000	1,853,631	1,853,631	-
Interest	2,000	2,373	2,612	239
	<u>1,505,500</u>	<u>1,859,504</u>	<u>1,874,939</u>	<u>15,435</u>
TOTAL REVENUE	<u>\$ 6,261,720</u>	<u>\$ 6,618,554</u>	<u>\$ 6,497,513</u>	<u>\$ (121,041)</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

	Budget			Variance
	Original	Final	Actual	Favorable/ (Unfavorable)
EXPENDITURES				
Legislative	101,475	101,475	94,732	6,743
City court	24,323	24,873	24,820	53
City manager	115,207	117,993	115,967	2,026
Financial administration	421,852	419,352	380,307	39,045
Planning and zoning	10,254	10,254	10,042	212
City hall buildings maintenance	88,740	88,740	65,178	23,562
Other expense	208,796	208,796	199,694	9,102
Animal control	20,310	20,310	18,607	1,703
Police	935,393	942,893	938,547	4,346
Fire protection	891,785	891,785	836,654	55,131
Fire safers grant	-	-	-	-
Building and codes	15,828	15,828	14,356	1,472
Public works	825,082	822,269	785,833	36,436
State street aid	161,175	149,175	139,097	10,078
Capital improvements	811,446	3,996,024	3,719,102	276,922
Recreation	587,077	594,635	552,009	42,626
Swimming pools	37,185	37,185	22,192	14,993
Library	208,294	208,294	208,276	18
	<u>5,464,222</u>	<u>8,649,881</u>	<u>8,125,413</u>	<u>524,468</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Debt service:				
Bond principal	100,000	100,000	622,536	(522,536)
Note principal	169,827	169,827	141,868	27,959
Interest expense	62,230	62,230	53,886	8,344
	<u>332,057</u>	<u>332,057</u>	<u>818,290</u>	<u>(486,233)</u>
TOTAL EXPENDITURES	<u>5,796,279</u>	<u>8,981,938</u>	<u>8,943,703</u>	<u>38,235</u>
Excess of Revenue over Over Expenditures	465,441	(2,363,384)	(2,446,190)	(159,276)
OTHER FINANCING SOURCES				
Debt proceeds	(738,000)	2,108,220	2,348,987	(240,767)
Transfers in	<u>51,733</u>	<u>39,998</u>	<u>36,434</u>	<u>3,564</u>
TOTAL OTHER FINANCING SOURCES	<u>(686,267)</u>	<u>2,148,218</u>	<u>2,385,421</u>	<u>(237,203)</u>
Excess of Revenues and Other Financing Sources over Expenditures	<u>(220,826)</u>	<u>(215,166)</u>	<u>(60,769)</u>	<u>(275,935)</u>
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>1,843,679</u>	<u>1,843,679</u>	<u>1,843,679</u>	<u>-</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 1,622,853</u>	<u>\$ 1,628,513</u>	<u>\$ 1,782,910</u>	<u>\$ (275,935)</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
PROPRIETARY FUND – WATER AND SEWER FUND
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,335,259
Accounts receivable	755,143
Grants receivable	416,643
Inventories	<u>72,725</u>

TOTAL CURRENT ASSETS 2,579,770

OTHER ASSETS

Restricted cash	2,898,696
Unamortized bond discount	10,640
Capital assets	
Utility plant, net	<u>18,314,679</u>

TOTAL OTHER ASSETS 21,224,015

TOTAL ASSETS \$ 23,803,785

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 9,174
Accrued employee benefits	20,000
Other payables	(10,306)
Current portion of long- term debt	466,225
Interest payable	<u>5,187</u>

TOTAL CURRENT LIABILITIES 490,280

LONG-TERM LIABILITIES

Deferred taxes	98,644
Bonds payable	<u>10,213,599</u>

TOTAL LONG-TERM LIABILITIES 10,312,243

NET POSITION

Invested in capital assets, net of related debt	7,634,855
Restricted	2,898,696
Unrestricted	<u>2,467,711</u>

TOTAL NET POSITION 13,001,262

TOTAL LIABILITIES AND NET POSITION \$ 23,803,785

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
PROPRIETARY FUND – WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
YEAR ENDED JUNE 30, 2013

OPERATING REVENUE

Sales	\$ 3,013,284
Other operating revenue	<u>1,715</u>

TOTAL OPERATING REVENUE	<u>3,014,999</u>
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OPERATING EXPENSES

Auditing and accounting	20,085
Legal and professional	5,839
Subscriptions and dues	11,526
Salaries	641,892
Payroll taxes	49,419
Retirement	42,599
Utilities	185,739
Telephones and pagers	31,495
Education and training	3,745
Chemicals and lab	179,556
Garbage disposal-landfill	25,387
Auto expense	39,687
Equipment maintenance	149,910
Infiltration inflow	123,399
Repairs	33,124
Ground maintenance	17,826
Building maintenance	18,293
Hospital and health insurance	185,733
Safety supplies	6,112
Insurance	119,101
Travel	8,314
Operating supplies	74,346
Contract operations	320,000
Uniforms and safety boots	8,615
Depreciation and amortization	479,500
Other operating expenses	<u>6,362</u>

TOTAL OPERATING EXPENSES	<u>2,787,604</u>
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OPERATING INCOME	<u>227,395</u>
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See accompanying notes to financial statements.

**CITY OF KINGSTON, TENNESSEE
PROPRIETARY FUND – WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
YEAR ENDED JUNE 30, 2013**

NONOPERATING REVENUES (EXPENSES)	
Grant proceeds	491,663
Interest income	3,997
Interest expense	<u>(133,291)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>362,369</u>
CHANGE IN NET POSITION	589,764
NET POSITION AT THE BEGINNING OF THE YEAR	<u>12,411,498</u>
NET POSITION AT THE END OF THE YEAR	<u><u>\$ 13,001,262</u></u>

See accompanying notes to financial statements.

**CITY OF KINGSTON, TENNESSEE
 PROPRIETARY FUND – WATER AND SEWER FUND
 STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2013**

Cash Flows From Operating Activities	
Cash received from customers	\$ 2,859,200
Cash paid to suppliers	(1,644,401)
Cash paid to employees	<u>(641,892)</u>
Net cash provided by operating activities	<u>572,907</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(3,673,808)
Proceeds from long-term debt	61,625
Grants received for capital purposes	2,280,818
Principal paid on long-term debt	(422,180)
Interest expense	<u>(132,926)</u>
Net cash used by capital and related financing activities	<u>(1,886,471)</u>
Cash Flows From Investing Activities	
Interest earned	<u>3,997</u>
Net cash provided by investing activities	<u>3,997</u>
Net decrease in cash and cash equivalents	(1,309,567)
Cash and restricted cash equivalents at the beginning of year	5,543,522
Less: Restricted cash	<u>(2,898,696)</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,335,259</u></u>
Reconciliation of net operating income to net cash flows from operating activities:	
Cash Flows From Operating Activities	
Operating income	\$ 227,395
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation & amortization	479,500
Changes in operating assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable	(155,799)
Inventory	25,516
Increase (decrease) in liabilities:	
Accounts payable	6,601
Accrued employee benefits	-
Due to general fund	<u>(10,306)</u>
Net cash flows from operating activities	<u><u>\$ 572,907</u></u>

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Kingston, Tennessee, (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

Reporting Entity

The City of Kingston, Tennessee was incorporated in 1903 under the provisions of the State of Tennessee and operates under a Council-Manager form of government. It has the usual corporate powers of municipalities, including taxation, entering into contracts, and issuing bonds. The following services are authorized by Charter: Public Safety (Police and Fire), Streets, Sanitation, Health and Social Services, Culture-Recreation, Public Improvements, Planning and Zoning, Water and Sewer and General Administrative duties.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Kingston, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws as separate and distinct units of government apart from the City of Kingston, Tennessee.

The financial statements of the City include the General Fund, the Drug Fund, the Waste Management Fund, and the Water and Waste Water Department.

Government-wide and Fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities), report information about the primary government and its component units. These statements include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities are generally financed through taxes and intergovernmental revenues and are reported separately from business-type activities, which are financed in whole or in part by fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among programs revenue are reported instead as general revenue.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The following fund types are used by the City:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* are used to account for all proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America that are applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

City of Kingston Water Department is an enterprise fund that falls under the proprietary fund type. Proprietary fund types are used to account for activities conducted on a fee-for-service basis in a manner similar to commercial enterprises providing services to the public. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The City has elected not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

The City had no internal service funds or fiduciary funds as of or for the year ended June 30, 2013.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year-end. Sales, gasoline and motor fuel, and beer and liquor wholesale taxes are considered measurable at the point of sale and are recognized as revenue at that time. All other intergovernmental revenues, licenses and permits, charges for services, fines and forfeitures, and other revenues are measurable when received and are recorded as revenue at that time.

Property taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent March 1 of the following year. Property taxes attach as an enforceable lien on property after one year of delinquency.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Allowances for uncollectible taxes within the General Fund are based upon historical experience in collecting taxes.

The assessed value at January 1, 2013, upon which the 2013 levy was based, was \$148,458,601 not including public utilities. The tax rate was \$1.1734 per \$100. Current tax collections for the year ended June 30, 2013 were 93% of the tax levy.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

City of Kingston Water Department records revenue as billed to its customers based on a monthly meter reading cycle. Fees charged by City of Kingston Water Department to join an existing line or extension of an existing line are recorded as operating income. The related costs are expensed.

Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
2. The combined statement of revenues and expenditures - budget and actual for the General and Special Revenue Funds present comparisons of legally adopted budgets with actual data on a budgetary basis.
3. The City Council approves the budget at the beginning of each year. The City Manager is then authorized by resolution to pay, without further Council action, bills and charges as specified in the budget.
4. Unused appropriations for annually budgeted funds lapse at the end of the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

Cash and cash equivalents with original maturities of three months or less when purchased are considered to be cash equivalents.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Unbilled Accounts Receivable

In the enterprise fund, an estimated amount has been recorded for water and wastewater services rendered but not yet billed as of the close of the fiscal year. The receivable was computed by taking the cycle billings sent to customers in July and prorating the amount of days applicable to the current fiscal year. At June 30, 2013, unbilled revenue was estimated at \$277,483.

Allowance for Uncollectible Accounts

At June 30, 2013 the allowance for uncollectible accounts are as follows:

Governmental Funds	\$ 20,000
Enterprise Funds	<u>39,713</u>
	<u>\$ 59,713</u>

Inventory

The Enterprise Fund materials and supplies are stated on the basis of average cost.

Compensated Absences

The cost of vacation pay and sick leave benefits is recognized as earned by employees. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days on a regular pay-period basis. In no event will an employee who has not completed at least six months of service receive vacation pay upon separation. Employees can accumulate sick leave, and upon retirement, employees are reimbursed for 50% of their accumulated sick leave benefits not to exceed nine hundred sixty (960) work hours.

Capital Assets

The historical cost of capital assets (excluding infrastructure) is recorded in the Government-Wide Statements. Infrastructure assets have been recorded at deflated replacement cost. Depreciation is expensed based on the estimated useful lives of the assets on a straight line basis. Assets with a cost greater than \$1,000 are capitalized. Estimated useful lives range from 4-50 years.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Net Position/Fund Balance

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Governmental fund equity is classified as fund balance. The Governmental Accounting Standards Board issued Statement No. 54 (GASB No. 54) Fund Balance Reporting and Governmental Fund Type Definitions in March 2009. GASB No. 54 enhances the usefulness of fund balance information presented in the governmental funds by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance in the governmental funds will be classified as follows:

1. Nonspendable – amounts that cannot be spent because they are either (1) not in spendable form (such as inventories, prepaids, etc.) or (2) legally or contractually required to be maintained intact (such as corpus or principal of a permanent fund).
2. Restricted – amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.
3. Committed – amounts that can be used only for the specific purposes determined by a formal action (e.g. ordinance or resolution) of the City Council, the highest decision making authority. Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on funds.
4. Assigned – amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. City Council has a fund balance policy that allows assigned amounts to be reassigned by City Council, or management.
5. Unassigned – represents the residual classification for the government's general fund and includes all amounts not contained in the other classifications. When committed, assigned, or unassigned fund balance amounts are available for use, it is the City's policy to use the committed fund balance first, the assigned fund balance second, and then the unassigned fund balance as they are needed.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section or deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City did not have any items that would qualify for reporting in this category for the year ending June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City did not have any items that would qualify for reporting in this category for the year ending June 30, 2013.

NOTE B – CASH AND INVESTMENTS

Investments that have maturities of three months or less at the date of purchase are classified as cash equivalents. Cash and investments are stated at cost which approximates market value. Carrying amounts at June 30, 2013, are as follows:

	<u>Balance Per Books</u>	<u>Balance Per Bank</u>
Deposits		
Governmental activities		
Cash on hand	\$ 500	\$ -
Cash in checking and savings	<u>1,509,989</u>	<u>1,404,007</u>
	<u>1,510,489</u>	<u>1,404,007</u>
Business-type activities		
Cash on hand	200	-
Cash in checking and savings	<u>4,233,755</u>	<u>4,672,522</u>
	<u>4,233,955</u>	<u>4,672,522</u>
 Total cash and savings accounts	 <u>\$ 5,744,444</u>	 <u>\$ 6,076,529</u>

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE B – CASH AND INVESTMENTS (CONT.)

State of Tennessee authorizes the City to invest in obligations of the United States or its agencies, non-convertible debt securities of certain federal agencies, other obligations guaranteed as the principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidence of deposit in state and federal banks and savings and loan associations, and the state treasurer's investment pool. The Utility is authorized by its Board to invest the funds in the institution that bids and pays the highest rate of interest.

The City's bank balances were entirely insured through the Federal Deposit Insurance Corporation or the State of Tennessee Collateral Pool, or collateral held by the government, or its agent, in its name.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 735,089	\$ -	\$ -	735,089
Construction in progress	690,380	1,853,954	(690,380)	1,853,954
Total capital assets, not being depreciated	<u>1,425,469</u>	<u>1,853,954</u>	<u>(690,380)</u>	<u>2,589,043</u>
Capital assets, being depreciated:				
Building and improvements	4,591,868	4,500	-	4,596,368
Machinery and equipment	3,449,288	466,631	-	3,915,919
Other improvements	2,054,885	2,544,316	-	4,599,201
Total capital assets being depreciated	10,096,041	3,015,447	-	13,111,488
Less accumulated depreciation:	<u>(5,333,776)</u>	<u>(330,720)</u>	<u>-</u>	<u>(5,664,496)</u>
Total capital assets being depreciated, net	<u>4,762,265</u>	<u>2,684,727</u>	<u>-</u>	<u>7,446,992</u>
Governmental activities capital assets, net	<u>\$ 6,187,734</u>	<u>\$ 4,538,681</u>	<u>\$ (690,380)</u>	<u>\$ 10,036,035</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 270,618	\$ -	\$ -	\$ 270,618
Construction in progress	1,084,250	3,524,306	-	4,608,556
Total capital assets, not being depreciated	<u>1,354,868</u>	<u>3,524,306</u>	<u>-</u>	<u>4,879,174</u>
Capital assets, being depreciated				
Machinery and equipment	405,514	-	-	405,514
Water plant & distribution	8,459,380	73,513	-	8,532,893
Sewer plant & transmission	12,751,093	76,549	-	12,827,642
Total capital assets, being depreciated	<u>21,615,987</u>	<u>150,062</u>	<u>-</u>	<u>21,766,049</u>
Less accumulated depreciation:	<u>(7,851,044)</u>	<u>(479,500)</u>	<u>-</u>	<u>(8,330,544)</u>
Total capital assets being depreciated, net	<u>13,764,943</u>	<u>(329,438)</u>	<u>-</u>	<u>13,435,505</u>
Business-type activities capital assets, net	<u>\$ 15,119,811</u>	<u>\$ 3,194,868</u>	<u>\$ -</u>	<u>\$ 18,314,679</u>

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Depreciation expense is charged to the various governmental functions as follows:

NOTE C – CAPITAL ASSETS (CONT.)

Governmental activities:

General government	\$ 181,236
Public safety	129,339
Public welfare	<u>20,145</u>
Total depreciation expense - governmental activities	<u><u>\$ 330,720</u></u>

Business-type activities:

Water	\$ 223,912
Sewer	<u>255,588</u>
Total depreciation expense - business-type activities	<u><u>\$ 479,500</u></u>

NOTE D – PENSION PLAN

Plan Description

Employees of City of Kingston, Tennessee are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administrated by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivision such as the City of Kingston, Tennessee participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of the plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE D – PENSION PLAN (CONT.)

Funding Policy

The City requires employees to contribute 5.0% of earnable compensation.

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 6.79% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, the city's annual pension cost of \$174,812 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflations, (c) projected salary increases of 4.75% (graded) annual rate (non explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 6 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending June 30,	Annual Pension Cost	Percentage of	Net Pension Obligation
	(APC)	APC Contributed	
2013	\$ 174,812	100%	\$ -
2012	185,733	100%	-
2011	176,201	100%	-

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE D – PENSION PLAN (CONT.)

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 85.14% funded. The actuarial accrued liability for benefits was \$2.88 million, and the actuarial value of assets was \$2.46 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.43 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.39 million, and the ratio of the UAAL to the covered payroll was 17.96%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 2,455	\$ 2,884	\$ 428	85.14%	\$ 2,385	17.96%
July 1, 2009	\$ 1,430	\$ 1,576	\$ 146	90.74%	\$ 23	6.26%
July 1, 2007	\$ 868	\$ 1,023	\$ 155	84.85%	\$ 19	7.97%

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE E – LONG-TERM DEBT

Long-term debt of the City of Kingston, Tennessee at June 30, 2013, consists of the following:

Governmental Activities:

\$1,000,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments due annually and vary, interest rate is 0.49% at 6/30/13	\$ 645,000
\$1,000,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments due annually and vary, interest rate is 0.49% at 6/30/13	854,000
\$2,000,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments due annually and vary, interest rate is 0.18% at 6/30/13	1,952,000
Municipal Asset Management, capital lease for the purchase of a fire truck, payments due annually of \$54,688 includes principal and interest, interest rate at 4.11% at 6/30/13	151,423
ORNL Credit Union, capital lease for the purchase of five police vehicles, payments due monthly of \$3,148 includes principal and interest, interest rate is variable between the loans at 6/30/13	8,269

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE E – LONG-TERM DEBT (CONT.)

Citizens Bank, Line of credit for up to \$1,500,000 to provide interim financing for Ladd Landing Greenway interest only payments with interest rate of 2.9 at 6/30/13	<u>179,632</u>
Total debt	3,790,324
Long-term portion of provision for compensated absences	<u>18,738</u>
	3,809,062
Less amounts due within one year	<u>(391,352)</u>
Total long-term debt	<u><u>\$ 3,417,710</u></u>

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE E – LONG-TERM DEBT (CONT.)

Business-Type Activities:

Tennessee Municipal Bond Fund Series 1999 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2025. 0.31% interest rate at 6/30/13	\$ 4,175,000
Tennessee Municipal Bond Fund Series 2004 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2023. 0.31% interest rate at 6/30/13	1,631,000
Tennessee Municipal Bond Fund Series 2008 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2029. 0.31% interest rate at 6/30/13	1,652,000
Berkadia Commercial Mortgage Series 1979 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2020. 5% interest rate at 6/30/13	230,000
USDA Rural Development, Water Revenue and Tax Bond Series 2010C at variable rate of interest, due in varying amounts through March 2051, 2.5% interest rate at 6/30/13	484,099
USDA Rural Development, Water Revenue and Tax Bond Series 2010 at variable rate of interest, due in varying amounts through March 2051, 2.5% interest rate at 6/30/13	1,286,952
USDA Rural Development, Water Revenue and Tax Bond Series 2010A at variable rate of interest, due in varying amounts through October 2049, 3.75% interest rate at 6/30/13	804,130
RUS/USDA Loan Commitments	<u>416,643</u>
	10,679,824
Less amounts due in one year	<u>(466,225)</u>
Total long-term debt	<u><u>\$ 10,213,599</u></u>

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE E – LONG-TERM DEBT (CONT.)

Scheduled payments on long-term debt as of June 30, 2013 are as follows:

Governmental Activities

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 391,352	\$ 146,368	\$ 537,720
2015	210,447	138,142	348,589
2016	218,525	129,624	348,149
2017	173,000	120,760	293,760
2018	181,000	85,770	266,770
2019-2023	1,018,000	452,780	1,470,780
2024-2028	647,000	255,162	902,162
2029-2033	487,000	152,720	639,720
2034-2037	464,000	47,320	511,320
	<u>\$ 3,790,324</u>	<u>\$ 1,528,646</u>	<u>\$ 5,318,970</u>

Business-Type Activities

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 466,225	\$ 352,929	\$ 819,154
2015	484,354	334,689	819,043
2016	505,516	315,715	821,231
2017	532,714	295,915	828,629
2018	554,946	275,249	830,195
2019-2023	2,998,566	1,039,721	4,038,287
2024-2028	2,216,216	490,024	2,706,240
2029-2033	972,310	297,183	1,269,493
2034-2038	369,103	196,637	565,740
2039-2043	427,028	138,712	565,740
2044-2048	494,473	71,267	565,740
2049-2051	241,730	9,150	250,880
	<u>\$ 10,263,181</u>	<u>\$ 3,817,191</u>	<u>\$ 14,080,372</u>

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE E – LONG-TERM DEBT (CONT.)

During the year ended June 30, 2013, the changes in long-term debt were as follows:

	Balance 6/30/13	Proceeds	Payments	Balance 6/30/14	Amounts Due Within One Year
<u>Governmental Activities:</u>					
2003 TMBF - N. Kentucky	\$ 694,000	\$ -	\$ (49,000)	\$ 645,000	\$ 51,000
2008 TMBF - Street Paving	905,000	-	(51,000)	854,000	54,000
2012 TMBF - City Hall	62,000	1,938,000	(48,000)	1,952,000	50,000
1st TN - Police Vehicles	-	-	-	-	-
ORNL Police Vehicles	40,334	-	(32,065)	8,269	8,269
Municipal Asset - Fire Truck	197,959	-	(46,536)	151,423	48,451
Citicapital - Bobcat	3,899	-	(3,899)	-	-
DaimlerChrysler - Dump Truck	12,013	-	(12,013)	-	-
Ford Motor - Police Vehicles	-	-	-	-	-
Ford Motor - Police Vehicles	-	-	-	-	-
Citizens Bank - Ladd Landing	-	-	-	-	-
Citizens Bank LOC Ladd Landing	290,645	410,987	(522,000)	179,632	179,632
Total Governmental Activities					
Long-Term Debt	<u>\$ 2,205,850</u>	<u>\$ 2,348,987</u>	<u>\$ (764,513)</u>	<u>\$ 3,790,324</u>	<u>\$ 391,352</u>
<u>Business-Type Activities</u>					
Berkadia Commercial Mortgage					
Series 1979	\$ 260,000	\$ -	\$ (30,000)	\$ 230,000	\$ 30,000
TMBF Series 1999	4,425,000	-	(250,000)	4,175,000	262,000
TMBF Series 2004	1,689,000	-	(58,000)	1,631,000	60,000
TMBF Series 2008	1,719,000	-	(67,000)	1,652,000	70,000
USDA Rural Development					
Water Revenue and Tax Bond					
Series 2010A	814,361	-	(10,231)	804,130	10,621
USDA Rural Development					
Water Revenue and Tax Bond					
Series 2010C	-	486,000	(1,901)	484,099	7,823
USDA Rural Development					
Water Revenue and Tax Bond					
Series 2010	-	1,292,000	(5,048)	1,286,952	20,781
Total Business-Type Activities					
Long-Term Debt	<u>\$ 8,907,361</u>	<u>\$ 1,778,000</u>	<u>\$ (422,180)</u>	<u>\$ 10,263,181</u>	<u>\$ 461,225</u>

CITY OF KINGSTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE F – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years.

NOTE G- CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the City to concentrations of credit risk consist primarily of customer accounts and taxes receivable. Management does not believe significant credit risk exists at June 30, 2013.

NOTE H –ADOPTION OF NEW ACCOUNTING STANDARD

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows, and Net Position* became effective for the year ended June 30, 2013. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Net Assets was renamed to a Statement of Financial Position.

NOTE I – SUBSEQUENT EVENTS

The City's management has evaluated events and transactions through November 26, 2013, the date of the financial statements were available to issue for items that should potentially be recognized or disclosed.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KINGSTON, TENNESSEE
SCHEDULE OF FUNDING PROGRESS – POLITICAL SUBDIVISION PENSION PLAN
SUPPLEMENTARY INFORMATION
JUNE 30, 2013

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 2,455	\$ 2,884	\$ 428	85.14%	\$ 2,385	17.96%
July 1, 2009	\$ 1,430	\$ 1,576	\$ 146	90.74%	\$ 23	6.26%
July 1, 2007	\$ 868	\$ 1,023	\$ 155	84.85%	\$ 19	7.97%

SUPPLEMENTARY INFORMATION

**CITY OF KINGSTON, TENNESSEE
SPECIAL REVENUE FUND – DRUG FUND
BALANCE SHEET
JUNE 30, 2013**

	<u>Drug Fund</u>
Assets	
Cash in bank	\$ 2,383
Total assets	<u>\$ 2,383</u>
Fund Balance	
Restricted	\$ 2,383
Total fund balance	<u>\$ 2,383</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
SPECIAL REVENUE FUND – DRUG FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE
JUNE 30, 2013

	<u>Drug Fund</u>
Revenues	
Drug related fines	\$ 4,779
Total revenues	<u>4,779</u>
Expenditures	
Auditing	1,000
Operating supplies	5,792
Education	<u>150</u>
Total expenditures	<u>6,942</u>
Excess (deficiency) of revenues over (under) expenditures	(2,163)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(2,163)
Fund balance, July 1, 2012	<u>4,546</u>
Fund balance, June 30, 2013	<u>\$ 2,383</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
SPECIAL REVENUE FUND – DRUG FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
JUNE 30, 2013

	Budget			Variance Favorable/ (Unfavorable)
Revenues	Original	Final	Actual	
Drug Related Fines	\$ 20,000	\$ 20,000	\$ 4,779	\$ (15,221)
Total Revenues	20,000	20,000	4,779	(15,221)
Expenditures				
Education	1,000	1,000	150	850
Auditing	1,000	1,000	1,000	-
Other Contractual Services	2,000	2,000	-	2,000
Operating Supplies	7,000	7,000	5,792	1,208
Uniforms and Safety Boots	2,000	2,000	-	2,000
Safety Supplies	1,000	1,000	-	1,000
Capital Outlay	10,500	10,500	-	10,500
Total Expenditures	24,500	24,500	6,942	17,558
Excess (deficiency) of revenues over (under) expenditures	(4,500)	(4,500)	(2,163)	2,337
Fund balance, July 1, 2012	4,546	4,546	4,546	-
Fund balance, June 30, 2013	\$ 46	\$ 46	\$ 2,383	\$ 2,337

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
SCHEDULE OF PROPERTY TAXES RECEIVABLE
JUNE 30, 2013

<u>Year of Levy</u>	<u>Rate</u>	<u>Total Assessment</u>	<u>Levy</u>	<u>Balance June 30, 2012</u>	<u>Taxes Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Balance June 30, 2013</u>
2013	1.1734	\$ 148,458,601	\$ 1,741,985		\$ 1,741,985	\$ -	\$ -	1,741,985
2012	1.1734	149,685,658	1,756,395	1,756,395	-	-	1,639,354	117,071
2011	1.0340	147,885,063	1,529,178	124,859	-	(5,541)	53,827	65,491
2010	1.0834	148,659,217	1,610,641	34,388	-	26,071	33,296	27,163
2009	1.3500	118,403,591	1,598,448	36,428	-	(23,634)	4,451	8,343
2008	1.3500	116,989,857		7,575	-	2,449	1,106	8,918
2007	1.3000	112,829,652		10,005	-	(275)	871	8,859
2006	1.3000	110,880,276		6,026	-	(360)	932	4,734
2005	1.2700	106,242,267		3,466	-	-	-	3,466
2004	1.2700	84,138,163		2,884	-	-	-	2,884
2003	1.2700	80,987,724		2,258	-	-	-	2,258
2002	1.2700	79,808,728		1,618	-	-	-	1,618
2001	1.2700	76,327,448		1,593	-	(1,593)	-	-
				<u>\$ 1,987,495</u>	<u>\$ 1,741,985</u>	<u>\$ (2,883)</u>	<u>\$ 1,733,837</u>	<u>\$ 1,992,790</u>
Less: Allowance for Doubtful Accounts								<u>\$ (20,000)</u>
Net Property Tax Receivable								<u><u>\$ 1,972,790</u></u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
WATER AND SEWER FUND
SCHEDULE OF UTILITY RATES AND NUMBER OF CUSTOMERS SERVED
JUNE 30, 2013

WATER RATES

<u>Quantity</u>	<u>Rates</u>		<u>East Roane</u>
	<u>Inside City Limits</u>	<u>Outside City Limits</u>	
First 1,000 gallons	\$ 8.99	\$ 14.10	\$ 1.79
Over 1,000 gallons	6.22	12.44	N/A

SEWER RATES

<u>Quantity</u>	<u>Rates</u>	
	<u>Inside City Limits</u>	<u>Outside City Limits</u>
First 1,000 gallons	\$ 8.99	\$16.81
Over 1,000 gallons	8.44	13.44

GARBAGE SERVICE FEES

Residential		
Tax Relief	\$ 5.00	per month
Single Family Residence	11.00	per month
Trailer Parks	37.66	per month
Business and Commercial		
Small Enterprise	\$ 18.83	per month
Medium Enterprise	28.23	per month
Food Service	56.48	per month
Motel	112.94	per month
Industrial	112.94	per month

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
WATER AND SEWER FUND
SCHEDULE OF UTILITY RATES AND NUMBER OF CUSTOMERS SERVED
JUNE 30, 2013

WATER TAP FEES

Inside Rates/Residential	\$ 700
Outside Rates/Residential	1,400
Irrigation Meter Service	1,050
Mobile Homes Per Unit	700
Commercial/Hotels/Motels/Campgrounds/Assist. Living/Nursing Homes	7,000
Apartment Complex Per Meter 3 or More Units	500 each
Commercial/Physician Office	1,490
Commercial/Restaurants/Churches w/Kitchen	1,490

SEWER TAP FEES

Inside Rates/Residential	\$ 1,000
Outside Rates/Residential	2,025
Commercial/Hotels/Motels/Campgrounds/Assist. Living/Nursing Homes	10,050
Commercial/Restaurants/Churches w/Kitchen	2,000
Commercial/Physician Office	2,000
New Meter Service Charge	125

The number of customers services by utility as of June 30, 2013, is as follows:

Water system	3,722
Sewer system	2,429
Sanitation services	2,409

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
WATER AND SEWER FUND
SCHEDULE OF UNACCOUNTED FOR WATER

AWWA WLCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

Back to

Click to access definition

Water Audit Report for: **City of Kingston Water Dept.**
Reporting Year: **2013** | **6/2013**

Enter data only in the white cells below. Where available, metered values should be used. If metered values are unavailable, please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades.

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED

Volume from own sources: 10 367.834 Million gallons (US)/yr (MG/yr)

Master meter errors/adjustments (enter positive value): 10 3.678 under-registered MG/yr

Water imported: n/a 0.000 MG/yr

Water exported: n/a 0.000 MG/yr

WATER SUPPLIED: 371.512 MG/yr

AUTHORIZED CONSUMPTION

Billed metered: 10 260.874 MG/yr

Billed unmetered: n/a 0.000 MG/yr

Unbilled metered: 10 0.140 MG/yr

Unbilled unmetered: 10 12.983 MG/yr

AUTHORIZED CONSUMPTION: 273.996 MG/yr

PCnt: 0 12.983 Value:

Use buttons to select percentage of water supplied OR the default value

WATER LOSSES (Water Supplied - Authorized Consumption) 97.516 MG/yr

Apparent Losses

Unauthorized consumption: 10 0.929 MG/yr

Default option selected for unauthorized consumption: a grading of 5 is applied but not displayed

Customer metering inaccuracies: 10 3.975 MG/yr

Systematic data handling errors: 6 5.080 MG/yr

Apparent Losses: 9.984

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 87.532 MG/yr

WATER LOSSES: 97.516 MG/yr

PCnt: 10 1.50% Value:

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

NON-REVENUE WATER

NON-REVENUE WATER: 110.638 MG/yr

Total Water Loss = Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 4 100.0 miles

Number of active AND inactive service connections: 8 4,061

Connection density: 41 conn./mile main

Average length of customer service line: 10 0.0 ft

Average operating pressure: 6 70.0 psi

COST DATA

Total annual cost of operating water system: 10 \$1,199,888 \$/Year

Customer rate unit cost (applied to Apparent Losses): 10 \$13.44 \$/1000 gallons (US)

Variable production cost (applied to Real Losses): 10 \$532.87 \$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of water supplied: 29.8%

Non-revenue water as percent by cost of operating system: 15.7%

Annual cost of Apparent Losses: \$134,180

Annual cost of Real Losses: \$46,643

Operational Efficiency Indicators

Apparent Losses per service connection per day: 6.74 gallons/connection/day

Real Losses per service connection per day: 59.05 gallons/connection/day

Real Losses per length of main per day: N/A

Real Losses per service connection per day per psi pressure: 0.84 gallons/connection/day/psi

Unavoidable Annual Real Losses (UARL): 29.39 million gallons/year

From Above, Real Losses = Current Annual Real Losses (CARL): 87.53 million gallons/year

Infrastructure Leakage Index (ILI) (CARL/UARL): 2.98

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 94 out of 100 ***

Weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Unauthorized consumption
- 2: Systematic data handling errors
- 3: Length of mains

For more information, click here to see the Grading Matrix worksheet

CITY OF KINGSTON, TENNESSEE
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2013

	<u>Coverage Amount</u>
Buildings and personal property	
Data processing equipment	
Moblie equipment	\$ 30,457,785
Automotive Coverage:	
Liability coverage for bodily injury - per person	300,000
Liability coverage for bodily injury - per occurrence	700,000
Liability coverage for property damage - each occurrence	100,000
Liability coverage for property damage - each other loss - per occurrence	1,000,000
Uninsured motorists for bodily injury - per occurrence	300,000
Uninsured motorists for property damage - per occurrence	100,000
Catastrophic medical payments - per occurrence	1,000,000
Medical payments - per person	1,000
Medical payments - per accident	10,000
City Employees and Elected Officials	
Errors and Omissions	1,000,000
Employee Dishonesty	200,000
Workman's Compensation Liability	Statutory Limits
General Liability	
Property Damage	100,000
Bodily injury - per occurrence	700,000
Bodily injury - per person	300,000

See accompanying independent auditors' report.

**CITY OF KINGSTON, TENNESSEE
GENERAL FUND
LONG-TERM DEBT REQUIREMENTS
JUNE 30, 2013**

Year Ended June 30,	2003 BOND ISSUE REQUIREMENTS		2008 BOND ISSUE REQUIREMENTS		2012 BOND ISSUE REQUIREMENTS	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 51,000	\$ 19,350	\$ 54,000	\$ 42,700	\$ 50,000	\$ 78,080
2015	52,000	17,820	56,000	40,000	52,000	76,080
2016	53,000	16,260	59,000	37,200	54,000	74,000
2017	55,000	14,670	62,000	34,250	56,000	71,840
2018	57,000	13,020	65,000	31,150	59,000	69,600
2019	58,000	11,310	69,000	27,900	61,000	67,240
2020	60,000	9,570	72,000	24,450	63,000	64,800
2021	62,000	7,770	76,000	20,850	66,000	62,280
2022	64,000	5,910	79,000	17,050	68,000	59,640
2023	66,000	3,990	83,000	13,098	71,000	56,920
2024	67,000	2,012	87,000	8,950	74,000	54,080
2025	-	-	92,000	4,600	77,000	51,120
2026	-	-	-	-	80,000	48,040
2027	-	-	-	-	83,000	44,840
2028	-	-	-	-	87,000	41,520
2029	-	-	-	-	90,000	38,040
2030	-	-	-	-	94,000	34,440
2031	-	-	-	-	97,000	30,680
2032	-	-	-	-	101,000	26,800
2033	-	-	-	-	105,000	22,760
2034	-	-	-	-	109,000	18,560
2035	-	-	-	-	114,000	14,200
2036	-	-	-	-	118,000	9,640
2037	-	-	-	-	123,000	4,920
	<u>\$ 645,000</u>	<u>\$ 121,682</u>	<u>\$ 854,000</u>	<u>\$ 302,198</u>	<u>\$ 1,952,000</u>	<u>\$ 1,120,120</u>

Year Ended June 30,	ORNL POLICE VEHICLES REQUIREMENTS		FIRE TRUCK REQUIREMENTS		LADD LANDING REQUIREMENTS	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 8,269	\$ -	\$ 48,451	\$ 6,238	\$ 179,632	\$ -
2015	-	-	50,447	4,242	-	-
2016	-	-	52,525	2,164	-	-
	<u>\$ 8,269</u>	<u>\$ -</u>	<u>\$ 151,423</u>	<u>\$ 12,644</u>	<u>\$ 179,632</u>	<u>\$ -</u>

See accompanying independent auditors' report.

**CITY OF KINGSTON, TENNESSEE
GENERAL FUND
LONG-TERM DEBT REQUIREMENTS
JUNE 30, 2013**

Year Ended June 30,	TOTAL PRINCIPAL	TOTAL INTEREST	TOTAL DEBT SERVICE REQUIREMENT
2014	\$ 391,352	\$ 146,368	\$ 537,720
2015	210,447	138,142	348,589
2016	218,525	129,624	348,149
2017	173,000	120,760	293,760
2018	181,000	113,770	294,770
2019	188,000	106,450	294,450
2020	195,000	98,820	293,820
2021	204,000	90,900	294,900
2022	211,000	82,600	293,600
2023	220,000	74,008	294,008
2024	228,000	65,042	293,042
2025	169,000	55,720	224,720
2026	80,000	48,040	128,040
2027	83,000	44,840	127,840
2028	87,000	41,520	128,520
2029	90,000	38,040	128,040
2030	94,000	34,440	128,440
2031	97,000	30,680	127,680
2032	101,000	26,800	127,800
2033	105,000	22,760	127,760
2034	109,000	18,560	127,560
2035	114,000	14,200	128,200
2036	118,000	9,640	127,640
2037	123,000	4,920	127,920
	<u>\$ 3,790,324</u>	<u>\$ 1,556,644</u>	<u>\$ 5,346,968</u>

See accompanying independent auditors' report.

**CITY OF KINGSTON, TENNESSEE
WATER AND SEWER FUND
LONG-TERM DEBT REQUIREMENTS
JUNE 30, 2013**

Year Ended June 30,	1979 BOND ISSUE REQUIREMENTS		1999 BOND ISSUE REQUIREMENTS		2004 BOND ISSUE REQUIREMENTS		2008 BOND ISSUE REQUIREMENTS	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 35,000	\$ 11,500	\$ 262,000	\$ 207,658	\$ 60,000	\$ 52,029	\$ 70,000	\$ 7,819
2015	35,000	9,750	275,000	194,504	61,000	50,115	73,000	7,526
2016	35,000	8,000	289,000	180,696	63,000	48,169	77,000	7,218
2017	40,000	6,250	304,000	166,183	65,000	46,159	81,000	6,889
2018	40,000	4,500	319,000	150,921	67,000	44,086	85,000	6,540
2019	45,000	2,250	335,000	134,904	70,000	41,949	89,000	6,171
2020	-	-	351,000	118,087	72,000	39,716	94,000	5,781
2021	-	-	369,000	100,462	74,000	37,419	98,000	5,365
2022	-	-	388,000	81,933	77,000	35,058	103,000	4,929
2023	-	-	407,000	62,454	79,000	32,602	108,000	4,467
2024	-	-	427,000	42,021	82,000	30,082	114,000	3,979
2025	-	-	449,000	20,579	84,000	27,466	120,000	3,461
2026	-	-	-	-	87,000	24,786	125,000	2,912
2027	-	-	-	-	90,000	22,011	132,000	2,337
2028	-	-	-	-	92,000	19,140	138,000	1,726
2029	-	-	-	-	95,000	16,205	145,000	1,084
2030	-	-	-	-	98,000	13,175	-	-
2031	-	-	-	-	102,000	10,049	-	-
2032	-	-	-	-	105,000	6,795	-	-
2033	-	-	-	-	108,000	3,445	-	-
	<u>\$ 230,000</u>	<u>\$ 42,250</u>	<u>\$ 4,175,000</u>	<u>\$ 1,460,402</u>	<u>\$ 1,631,000</u>	<u>\$ 600,456</u>	<u>\$ 1,652,000</u>	<u>\$ 78,204</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
WATER AND SEWER FUND LONG-TERM DEBT REQUIREMENTS
JUNE 30, 2013

Year Ended June 30,	2010A BOND ISSUE REQUIREMENTS		2010C BOND ISSUE REQUIREMENTS		2010 BOND ISSUE REQUIREMENTS	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 10,621	\$ 29,975	\$ 7,823	\$ 12,013	\$ 20,781	\$ 31,935
2015	11,027	29,569	8,021	11,815	21,306	31,410
2016	11,447	29,149	8,224	11,612	21,845	30,871
2017	11,884	28,712	8,432	11,404	22,398	30,318
2018	12,337	28,259	8,645	11,191	22,964	29,752
2019	12,808	27,788	8,864	10,972	23,545	29,171
2020	13,297	27,299	9,088	10,748	24,140	28,576
2021	13,804	26,792	9,318	10,518	24,751	27,965
2022	14,331	26,265	9,553	10,283	25,377	27,339
2023	14,877	25,719	9,795	10,041	26,018	26,698
2024	15,445	25,151	9,793	10,043	26,676	26,040
2025	16,034	24,562	10,297	9,539	27,351	25,365
2026	16,646	23,950	10,557	9,279	28,043	24,673
2027	17,281	23,315	10,824	9,012	28,752	23,964
2028	17,940	22,656	11,098	8,738	29,479	23,237
2029	18,625	21,971	11,379	8,457	30,224	22,492
2030	19,335	21,261	11,666	8,170	30,989	21,727
2031	20,073	20,523	11,961	7,875	31,772	20,944
2032	20,839	19,757	12,264	7,572	32,576	20,140
2033	21,634	18,962	12,574	7,262	33,399	19,317
2034	22,459	18,137	12,892	6,944	34,244	18,472
2035	23,316	17,280	13,218	6,618	35,110	17,606
2036	24,206	16,390	13,552	6,284	35,998	16,718
2037	25,129	15,467	13,895	5,941	36,908	15,808
2038	26,088	14,508	14,246	5,590	37,842	14,874
2039	27,083	13,513	14,606	5,230	38,799	13,917
2040	28,116	12,480	14,976	4,860	39,780	12,936
2041	29,189	11,407	15,355	4,481	40,786	11,930
2042	30,303	10,293	15,743	4,093	41,817	10,899
2043	31,459	9,137	16,141	3,695	42,875	9,841
2044	32,659	7,937	16,549	3,287	43,959	8,757
2045	33,905	6,691	16,968	2,868	45,071	7,645
2046	35,198	5,398	17,397	2,439	46,210	6,506
2047	36,541	4,055	17,837	1,999	47,379	5,337
2048	37,935	2,661	18,288	1,548	48,577	4,139
2049	39,383	1,213	18,750	1,086	49,805	2,911
2050	10,876	73	19,224	1,160	51,065	2,174
2051	-	-	14,286	140	38,341	393
	<u>\$ 804,130</u>	<u>\$ 668,275</u>	<u>\$ 484,099</u>	<u>\$ 264,807</u>	<u>\$ 1,286,952</u>	<u>\$ 702,797</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
WATER AND SEWER FUND LONG-TERM DEBT REQUIREMENTS
JUNE 30, 2013

Year Ended	TOTAL	TOTAL	TOTAL DEBT
June 30,	PRINCIPAL	INTEREST	SERVICE REQUIREMENT
2014	\$ 466,225	\$ 352,929	\$ 819,154
2015	484,354	334,689	819,043
2016	505,516	315,715	821,231
2017	532,714	295,915	828,629
2018	554,946	275,249	830,195
2019	584,217	253,205	837,422
2020	563,525	230,207	793,732
2021	588,873	208,521	797,394
2022	617,261	185,807	803,068
2023	644,690	161,981	806,671
2024	674,914	137,316	812,230
2025	706,682	110,972	817,654
2026	267,246	85,600	352,846
2027	278,857	80,639	359,496
2028	288,517	75,497	364,014
2029	300,228	70,209	370,437
2030	159,990	64,333	224,323
2031	165,806	59,391	225,197
2032	170,679	54,264	224,943
2033	175,607	48,986	224,593
2034	69,595	43,553	113,148
2035	71,644	41,504	113,148
2036	73,756	39,392	113,148
2037	75,932	37,216	113,148
2038	78,176	34,972	113,148
2039	80,488	32,660	113,148
2040	82,872	30,276	113,148
2041	85,330	27,818	113,148
2042	87,863	25,285	113,148
2043	90,475	22,673	113,148
2044	93,167	19,981	113,148
2045	95,944	17,204	113,148
2046	98,805	14,343	113,148
2047	101,757	11,391	113,148
2048	104,800	8,348	113,148
2049	107,938	5,210	113,148
2050	81,165	3,407	84,572
2051	52,627	533	53,160
	<u>\$ 10,263,181</u>	<u>\$ 3,817,191</u>	<u>\$ 14,080,372</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2013

CFDA Number	Grant Number	Federal Grantor/ Program Name	Receivable June 30, 2012	Receipts	Expenditures	Adjustments	Receivable June 30, 2013
FEDERAL AWARDS							
10.760		Water and Waste Disposal Systems for Rural Communities - Automated Meters	558,480	\$ 617,664	\$ 59,184	\$ -	\$ -
10.760		Water and Waste Disposal Systems for Rural Communities - Gallaher Sewer Line	939,155	985,432	46,277	-	-
10.760		Water and Waste Disposal Systems for Rural Communities - Interconnecting Waterline Rockwood	291,520	-	125,123	-	416,643
		Total Program 10.760	1,789,155	\$ 1,603,096	\$ 230,584	\$ -	\$ 416,643
12.700		Department of Defense Direct Programs Donations/Loans of Obsolete DOD Property	-	465,250	465,250	-	-
20.205		Department of Transportation Direct Programs Highway Planning and Construction Ladd Landing	90,693.00	1,853,950	1,763,257	-	-
		TOTAL FEDERAL AWARDS	\$ 1,879,848	\$ 3,922,296	\$ 2,459,091	\$ -	\$ 416,643
STATE FINANCIAL ASSISTANCE							
		State of Tennessee Library Services & Technology Act Tech Grant	-	1,663	1,663	-	-
		State of Tennessee Used Oil Collection and Recycling Grant		795	11,279		10,484
		Tennessee Dept. of Environment and Conservation/Local Park & Recreation Fund	25,580	-	-	-	25,580
		TOTAL STATE AWARDS	\$ 25,580	\$ 2,458	\$ 12,942	\$ -	\$ 36,064
		TOTAL FEDERAL & STATE AWARDS	\$ 1,905,428	\$ 3,924,754	\$ 2,472,033	\$ -	\$ 452,707

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
JUNE 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of Kingston and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



DANIELS, USELTON AND CLAY, P.C.

Certified Public Accountants & Consultants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Honorable Mayor, City Manager and City Council
City of Kingston, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kingston, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Kingston, Tennessee's basic financial statements and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Kingston, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kingston, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Kingston, Tennessee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2011-1, 2012-1, and 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kingston, Tennessee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-1, 2012-1, 2013-1.

City of Kingston, Tennessee's Response to Findings

City of Kingston, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Kingston, Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kingston, Tennessee

November 26, 2013



DANIELS, USELTON AND CLAY, P.C.

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A- 133

To the Honorable Mayor, City Manager and City Council
City of Kingston, Tennessee

Report on Compliance for Each Major Federal Program

We have audited City of Kingston, Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Kingston, Tennessee's major federal programs for the year ended June 30, 2013. City of Kingston, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Kingston, Tennessee's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Kingston, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Kingston, Tennessee's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Kingston, Tennessee, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-1, 2012-1 and 2013-1. Our opinion on each major federal program is not modified with respect to these matters.

City of Kingston, Tennessee's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Kingston, Tennessee's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of City of Kingston, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Kingston, Tennessee's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Kingston, Tennessee's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items 2011-1, 2012-1, 2013-1, which we consider to be significant deficiencies.

City of Kingston, Tennessee's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Kingston, Tennessee's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Daniel Uselton - Clay P.C.

Kingston, Tennessee

November 26, 2013

**CITY OF KINGSTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) Circular A-133: No

Major federal programs for the City of Kingston for the fiscal year ended June 30, 2013 are:

<u>Program Name</u>	<u>CFDA #</u>
• Water and Waste Disposal Systems for Rural Communities	10.760
• Highway Planning and Construction	20.205
• Donations/Loans of Obsolete DOD Property	12.700

Dollar threshold used to distinguish between Type A & Type B programs: \$300,000

Auditee qualified as a low-risk auditee: No

**CITY OF KINGSTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

II. Findings Related to the Audit of the Financial Statements of the City of Kingston

PRIOR YEAR FINDINGS – UNRESOLVED

Finding 2011-1 Financial Statement and Footnote Preparation

CONDITION – An entity being audited is required to have sufficient internal control over financial reporting to allow management to prepare their own financial statements and footnotes in accordance with generally accepted accounting principles (GAAP). Due to limitations on staff size and resources, the City's current internal control structure does not meet this requirement. Management obtains assistance from its external audit firm for the preparation of its annual financial statements and footnotes in accordance with GAAP. Although this results in financial statements which are in accordance with GAAP, the external audit firm cannot and is not considered to be a part of the City's internal control structure.

RECOMMENDATION – The City should consider whether it should obtain training for its staff to allow them to prepare financial statements in accordance with GAAP or continue to rely on others for this service.

MANAGEMENT'S RESPONSE – The City is a small entity with limited resources. Management has determined that it is more efficient to obtain assistance from its external auditors for the preparation of the annual financial statements and footnotes in accordance with GAAP. Management will continue to review the financial statements and footnotes and take responsibility for them.

Finding 2012-1 – Schedule of Expenditures of Federal and State Awards

CONDITION – The City did not properly prepare a complete schedule of expenditures of federal and state awards. As a result, there were material errors that were not detected and corrected by management.

RECOMMENDATION – The City should develop processes to properly accumulate and report federal and state award information for inclusion in the schedule of expenditures of federal and state awards.

MANAGEMENT'S RESPONSE – We concur and will prepare the schedule of expenditures of federal and state awards beginning with the year ending June 30, 2014.

**CITY OF KINGSTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

CURRENT YEAR FINDINGS

Finding 2013-1 – Property Tax Collection Reconciliation

CONDITION – The property tax collections recorded in the general ledger were not reconciled to the detailed list of collections by taxpayer or drawer checkout reports.

RECOMMENDATION – The City should reconcile property tax collections in the general ledger to the drawer checkout reports on a monthly basis. Any discrepancies noted should be investigated and resolved in a timely manner.

MANAGEMENT'S RESPONSE – We concur. Beginning in November 2013, the property tax collections recorded in the general ledger will be reconciled to the drawer checkout reports and any adjustments made at that time.

**CITY OF KINGSTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

III. Findings and Questioned Costs Related to the Audit of Federal Awards

Finding 2012-1 – Schedule of Expenditures of Federal and State Awards

Federal program: All programs
Federal agency: All agencies
Award years: July 1, 2011 to June 30, 2013

Criteria: According to OMB Circular A-133, Subpart C, Paragraph .300(d), the auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards.

Condition: The City did not prepare a schedule of expenditures of federal and state awards.

Questioned Costs: None

Effect: The City is not in compliance with federal regulations regarding preparation of a complete and accurate schedule of expenditures of federal awards.

Cause: Administrative management was unaware a schedule of federal awards was to be prepared by the City's staff.

Recommendation: The City should develop processes to properly accumulate and report federal award information for inclusion in the schedule of expenditures of federal and state awards.

Response: We concur and will prepare the schedule of expenditures of federal and state awards beginning with the year ending June 30, 2014.

Comment: One individual who works within the grant administration should be in charge of preparing this report due to OMB Circular A-133, Subpart C, Paragraph .300(d) stating the auditee shall prepare this report.



CORRECTIVE ACTION PLAN

Finding 2011-1 – Financial Statement and Footnote Preparation

Name of contact person: David Bolling, City Manager

Corrective action – The City is a small entity with limited resources. Management has determined that it is more efficient to obtain assistance from its external auditors for the preparation of the annual financial statements and footnotes in accordance with GAAP. Management will continue to review the financial statements and footnotes and take responsibility for them.

Anticipated completion date: June 2014

Finding 2012-1 Schedule of Expenditures of Federal and State Awards

Name of contact person: David Bolling, City Manager

Corrective action – We will make every attempt to prepare a complete and accurate schedule of federal and state awards.

Anticipated completion date: June 2014

Finding 2013 - 1 Property Tax Collection Reconciliation

Name of contact person: David Bolling, City Manager

Corrective action – Beginning November 2013, we will begin reconciling property tax collections to the general ledger and drawer checkout reports.

Anticipated completion date: June 2014

David Bolling, City Manager